



STATE OF WASHINGTON

ECONOMIC AND REVENUE FORECAST COUNCIL

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June 13, 2005

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FROM: ChangMook Sohn, Executive Director
Economic and Revenue Forecast Council

SUBJECT: June 10, 2005 REVENUE COLLECTION REPORT

General Fund-State (GFS) collections totaled \$1,300.6 million in the May 11–June 10, 2005 collection period. Tax payments were \$108.0 million (9.1 percent) more than the estimate for the period. The majority of the variance, however, was due to special factors. Refunds associated with two recent state Supreme Court decisions were not issued this month as assumed in the estimate. Excluding special factors, Revenue was still a solid \$22.6 million higher than expected this period. Most major revenue sources, with the exception of the property tax collection, were above the estimate for the month, with Revenue Act (retail sales, business and occupation, use and public utility) taxes (+\$30.5 million) and real estate excise tax (+\$8.0 million) again accounting for most of the positive variance. Cumulatively for the three months since the March 2005 forecast, General Fund-state collections are \$152.7 million (5.3 percent) higher than expected. Excluding special factors (primarily the timing of refunds and unusually large audit payments), collections are cumulatively \$44.8 million (1.6 percent) higher than expected. Revenue growth has been stellar the last few months and much better than assumed in the March forecast.

While revenue news is very positive, economic news has been mixed. The Bureau of Economic Analysis reported that real Gross Domestic Product (GDP) grew 3.5 percent in the first quarter of 2005 up from 3.1 percent previously reported. While this was weaker than in the previous quarter (3.8 percent), it was close to what was assumed in the March 2005 forecast (3.6 percent). Also positive was the Conference Board's report that its Index of Consumer Confidence increased in May, gaining back most of the ground it lost in April. On the other hand, the Conference Board also reported that the U.S. Index of Leading Indicators fell again in April and the February increase was revised down. The index has now declined for four straight months. In addition, the Bureau of Labor Statistics report that the U. S. economy added only 78,000 jobs in May, much less than expected. At the state level, wage and salary employment rose for the ninth straight month in May, although rate of increase has slowed significantly the last couple of months.

Revenue Act collections were \$30.5 million higher than expected this month. Part of this variance (\$12.7 million), however, was due to refunds associated with the Agrilink court case not being issued this month as assumed in the March forecast rather than to stronger than expected spending. Excluding these refunds, the Revenue Act variance is still a solid \$17.8 million. Cumulatively, in the three months since the March forecast, reported Revenue Act receipts are \$59.1 million higher than the estimate, however, \$35.2 million of this is due to special factors: the timing of Agrilink related refunds and an unusually large audit payment. Special factors aside, spending as reflected by sales, use and business and occupation tax payments continues to accelerate. Revenue Act receipts were 10.5 percent higher than a year-ago in the May 11 – June 10 collection period (primarily reflecting April 2005 business activity). Revenue Act tax payments increased 7.9 percent last month and were up 6.4 percent two months ago. Revenue Act collection growth has averaged 8.4 percent over the last three months and are a remarkable 8.2 percent higher than a year ago for the fiscal year-to-date. Revenue growth has significantly outpaced income growth throughout the fiscal year. While unsustainable in the long run, if the conditions that have helped fostered it continue: low long term interest rates, a very strong housing market and a steadily improving labor market persist, revenue growth may remain very strong in the near term.

Preliminary industry data for the May 11, to June 10, 2005 collection period based on payment data of more than 13,000 taxpayers who filed electronically show moderate to strong growth across-the-board. Businesses in the retail trade and food services sector reported a 6.1 percent increase in tax payments. Last month retailers reported a 7.5 percent gain. All retail NAICS sectors reported increases. Double digit gains were reported by electronics and appliance stores (+18.7 percent), non store retailers (+12.5 percent), accommodations and food service retailers (+11.6 percent) and furniture and home furnishing retailers (+10.3 percent). Food and beverage stores (+0.3 percent) and drug and health stores (+1.4 percent) were the weakest sectors. Motor vehicles & parts retailers, the largest retailing sector, reported a 4.3 percent increase in tax payments, up from last month's 1.6 percent gain. Overall, tax payments by non-retail trade and food services business were 7.0 percent higher than a year ago. Last month this category reported an 8.1 percent increase. All major sectors increased. Utilities (+16.5 percent), the professional, scientific and technical sector (+13.1 percent), and the transportation and warehouse sector (+11.1 percent), reported double digit increases in tax payments. The construction sector (+5.9 percent) for the first time since October, 2004 was absent from the list of double-digit gainers. Also, this is the first month since February 2004 that construction/real estate related sectors (construction, building materials/hardware, furniture and home furnishings, electronics and appliances) grew slower (+5.3 percent) than other sectors (+6.9 percent).

Non-Revenue Act General Fund taxes were \$77.1 million above the estimate this period. Most of this (\$72.7 million), however, was because some of the refunds associated with the State Supreme Court decision invalidating the estate tax were not issued this month as assumed in the March forecast. The issuance of these refunds has been delayed probably until July. Excluding these refunds, Non Revenue Act collections were \$4.4 above the estimate for the month. Higher than expected real estate excise tax, estate tax excluding refunds, and "other" revenue (primarily brokered natural gas tax payments) more than offset less than expected property tax payments. In the three months since the March forecast, non revenue act sources are \$92 million above the

estimate in total, but \$19.3 million above the estimate after accounting for change in timing of the estate tax refunds. Most of this variance (\$15.5 million) is due to higher than expected real estate excise tax payments. Estate tax payments are also \$6.7 million higher than assumed (excluding refunds). Although the State Supreme Court effectively abolished the estate tax for decedents dying after December 31, 2004, because estates are allowed up to nine months to file estate tax returns, payments of decedents dying prior to December 31, 2004 are still being received. A portion of these payments, however, may end up being refunded. Property tax receipts are \$9.2 million less than expected in the three months since the March forecast; however, monthly property tax payments can be volatile and most if not all of this shortfall is likely to be offset in future months.

Real estate excise tax payments were again higher than assumed this month. Mortgage rates are, for the most part, falling rather than rising and real estate activity remains strong, although there is a hint of some deceleration. Taxable activity (based on closings in April which reflect tax payments to the state in April) was 27.7 percent higher than a year-ago. Last month activity was up 35.6 percent and two months ago it increased 38.1 percent. Higher prices accounted for nearly all of the increase this month with the number of transactions only 0.2 percent higher than a year-ago.

Department of Licensing General Fund-State collections, which primarily reflect payments of various licenses and fees, were \$365,000 above the estimate for the month. Cumulatively, Department of Licensing collections are \$1.6 million higher than expected.

The attached Table 1 provides a comparison of collections with the March 2005 forecast for the May 11 – June 10, 2005 collection period and cumulatively since the March 2005 forecast. Table 2 compares revised collection figures to the preliminary numbers reported in last month's collection report.

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Attachments

TABLE 1
Revenue Collection Report
June 10, 2005 Collections Compared to the March 2005 Forecast
Thousands of Dollars

<u>Period/Source</u>	<u>Estimate*</u>	<u>Actual</u>	<u>Difference</u>	
			<u>Amount</u>	<u>Percent</u>
May 11 - June 10, 2005				
Department of Revenue-Total	\$1,188,761	\$1,296,418	\$107,657	9.1%
Revenue Act** (1)	709,641	740,157	30,515	4.3%
Non-Revenue Act(2)	479,120	556,261	77,141	16.1%
Liquor Sales/Liter	8,244	8,541	297	3.6%
Cigarette	3,995	4,318	323	8.1%
Property (State School Levy)	450,801	440,603	(10,198)	-2.3%
Estate	(72,743)	1,978	74,721	NC
Real Estate Excise	64,768	72,767	8,000	12.4%
Timber (state share)	1,864	2,140	276	14.8%
Other	22,192	25,913	3,722	16.8%
Department of Licensing (2)	3,805	4,170	365	9.6%
Lottery (5)	0	0	0	NA
Total General Fund-State***	\$1,192,566	\$1,300,588	\$108,022	9.1%
Cumulative Variance Since the March 2005 Forecast (March 11, 2005 -June 10, 2005)				
Department of Revenue-Total	\$2,859,602	3,010,701	151,099	5.3%
Revenue Act** (3)	2,196,110	2,255,178	59,068	2.7%
Non-Revenue Act(4)	663,492	755,522	92,031	13.9%
Liquor Sales/Liter	23,420	24,588	1,168	5.0%
Cigarette	11,801	12,929	1,128	9.6%
Property (State School Levy)	488,632	479,451	(9,180)	-1.9%
Estate	(72,743)	6,658	79,402	NA
Real Estate Excise	169,447	184,923	15,476	9.1%
Timber (state share)	1,864	2,140	276.4	14.8%
Other	41,071	44,833	3,762	9.2%
Department of Licensing (4)	7,640	9,229	1,589	20.8%
Lottery (5)	0	0	0	NA
Total General Fund-State***	\$2,867,242	\$3,019,930	\$152,688	5.3%

1 Collections May 11 - June 10, 2005. Collections primarily reflect April 2005 activity of monthly taxpayers and q1, 2005 activity of quarterly filers

2 May 1-31, 2005 collections.

3 Cumulative collections, estimates and variance since the March 2005 forecast; (March 11 - June 10, 2005) and revisions to history.

4 Cumulative collections, estimates and variance since the March 2005 forecast; (March thru May 2005) and revisions to history.

5 Lottery transfers to the General Fund

* Based on the March 2005 economic and revenue forecast.

**The Revenue Act consists of the retail sales, B&O, use, public utility, tobacco products taxes, and penalty and interest.

*** Detail may not add due to rounding. The General Fund-State total in this report includes only collections from larger state agencies: the Department of Revenue and the Department of Licensing.

TABLE 2
May 10, 2005 Collection Report - Revised Data
Thousands of Dollars

<u>Period/Source</u>	<u>Collections</u>		<u>Difference</u>	
	<u>Preliminary</u>	<u>Revised</u>	<u>Amount</u>	<u>Percent</u>
April 11 - May 10, 2005				
Department of Revenue-Total	\$996,628	\$996,628	(\$0)	-0.0%
Revenue Act (1)	862,236	862,236	0	0.0%
Non-Revenue Act(2)	134,392	134,392	(0)	-0.0%
Liquor Sales/Liter	8,560	8,560	(0)	-0.0%
Cigarette	4,414	4,414	0	0.0%
Property (State School Levy)-net	39,771	39,771	0	0.0%
Property tax collections	61,766	61,766	0	0.0%
transfer to the Student Achievement Acct.	(21,995)	(21,995)	(0)	NA
Estate	2,260	2,260	(0)	-0.0%
Real Estate Excise	66,959	66,959	0	0.0%
Timber (state share)	0	0	0	NA
Other	12,428	12,428	(0)	-0.0%
Department of Licensing (2)	3,965	3,945	(20)	-0.5%
Lottery (2)	0	0	0	NA
Total General Fund-State***	1,000,593	1,000,573	(\$20)	-0.0%

Cumulative Receipts: April 11 - May 10, 2005 & Revisions to History

Department of Revenue-Total	1,714,283	\$1,714,283	(\$0)	-0.0%
Revenue Act (3)	1,515,021	1,515,021	0	0.0%
Non-Revenue Act(4)	199,261	199,261	0	0.0%
Liquor Sales/Liter	16,047	16,047	0	0.0%
Cigarette	8,611	8,604	(7)	-0.1%
Property (State School Levy)-net after transfer	38,848	38,848	0	0.0%
Property tax collections	82,838	82,838	0	0.0%
transfer to the Student Achievement Acct.	(43,990)	(43,990)	(0)	NA
Estate	4,681	4,681	(0)	-0.0%
Real Estate Excise	112,155	112,130	(25)	-0.0%
Timber (state share)	0	(0)	(0)	NA
Other	18,919	18,951	32	0.2%
Department of Licensing (4)	5,079	6,127	1,048	20.6%
Lottery (4)	0	0	0	NA
Total General Fund-State***	\$1,719,361	\$1,720,410	\$1,049	0.1%

Preliminary. Reported in the May 10, 2005 collection report.

1 Collections April 11 - May 10, 2005. Collections primarily reflect March 2005 business activity of monthly taxpayers, and Jan-March 2005 activity of quarterly filers.

2 April 1-30, 2005 collections.

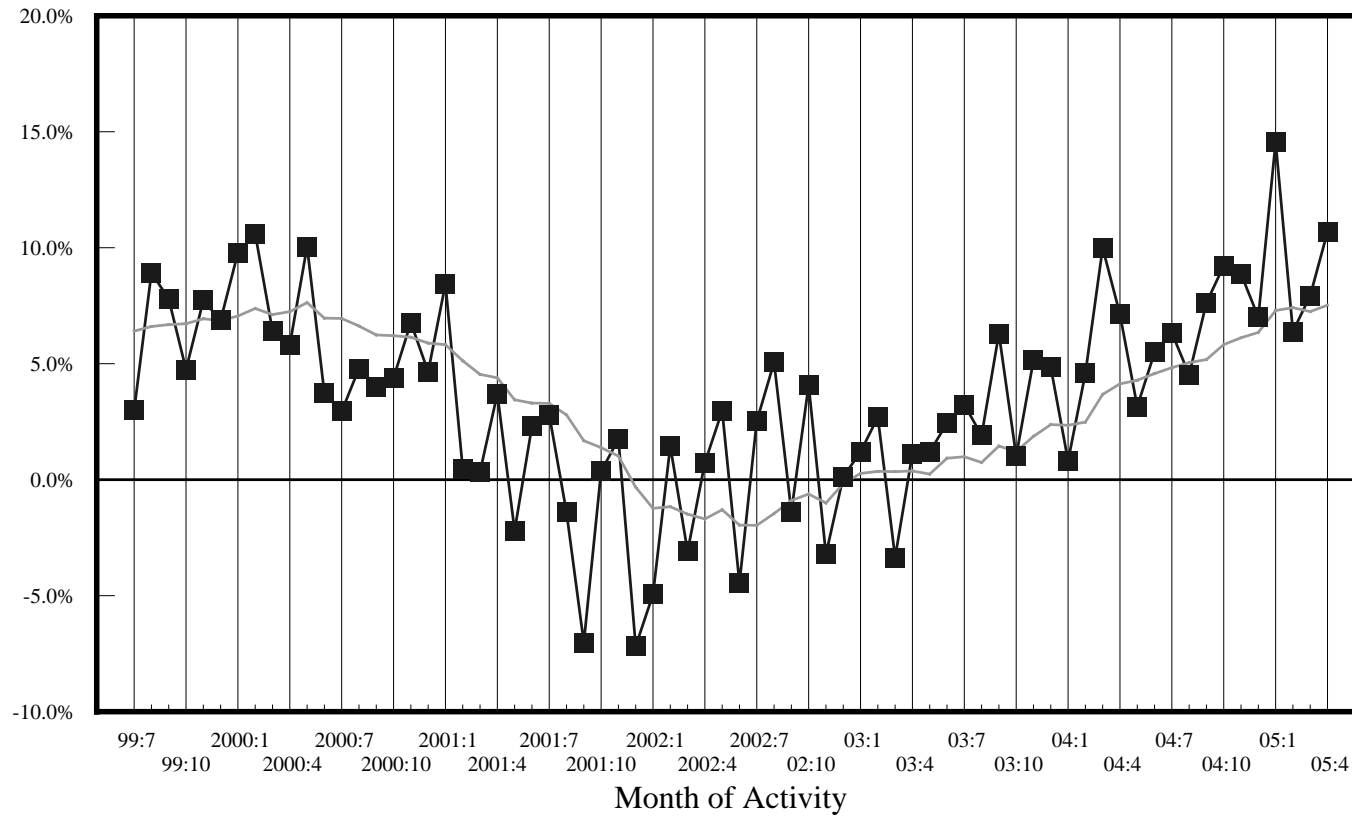
3 Cumulative receipts since the March 2005 forecast: March 11- May 10, 2005 & revisions to history.

4 Cumulative receipts since the March 2005 forecast (March & April 2005) & revisions to history.

* Revenue consists of the retail sales, B&O, use, public utility and tobacco products taxes, and penalty and interest payments for these taxes.

Revenue Act Net Collections*

Year-over-Year Percent Change



■ %CH from year-ago month

— %change: 12 month moving average

*Adjusted for Special factors